

The Massachusetts Homeownership Collaborative

HOMEBUYER COUNSELING CORE CURRICULUM

SECTION I: INTRODUCTION TO HOMEBUYER COUNSELING

Section Objectives:

- **To provide participants with an overview of the homebuyer counseling program**
- **To identify the advantages and disadvantages of homeownership**
- **To provide participants with an overview of the home buying process and the people involved**

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Core Handouts:

1. Introduction Outline
2. Pros and Cons of Homeownership
3. Homebuyers Roadmap

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A. PURPOSE AND GOALS OF HOMEBUYER COUNSELING

Major program goals of homebuyer counseling:

- **To help you decide whether you should become a homeowner**
- **To assist you in defining your level of homebuying readiness**
- **To assist you in developing strategies for achieving homeownership**
- **To build your confidence in your position, abilities and role in the homebuying process**
- **To educate you about the process of buying a home**

Major elements of homebuyer counseling program include:

- **Understanding the homebuying process**
- **Understanding the responsibilities of homeownership**
- **Exposure to practitioners in the homeownership field**
- **Information about the different steps in the process**
- **Information about first-time homebuyer programs and products**
- **Providing tools for participants to develop a personal strategy for achieving the goal of homeownership**

The program will include the following topics:

- **Budgeting and Credit**
- **The Housing Search Process**
- **Obtaining a Mortgage**
- **Legal Issues**
- **Home Inspections**
- **Appraisals**
- **Insurance**
- **Successful Homeownership**
- **(Optional Sections: Multi-family and/or condominium ownership)**

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Describe how the course will be run:

- Number of sessions
- Length of each session
- Outside speakers
- Attendance rules
- Cancellation of classes (procedures in the event of a snowstorm, etc.)
- Awarding of certificates, if applicable

Content areas should include the who, what, when, where, and why of homebuyer education, with attention to:

- The emotional components (what's going on for the participant emotionally that may help or hinder their movement towards homeownership);
- The factual components;
- The skill-building components (resource identification and networking).

TIP:

Discuss participants' goals and expectations:

Elicit participants' questions, concerns, issues re: homeownership and the homebuying process

Invite on-going, active participation to ensure that each of the classes meets the needs and goals of each participant, to the extent possible

Brainstorm a checklist of questions and topics to return to throughout the series to verify that participant goals and expectations are being met

B. ROLE OF SPONSORING AGENCY

Describe your agency (an independent, non-profit organization which works in the best interest of the buyer)

Explain your agency's mission and give a brief history

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Describe funding sources

C. ADVANTAGES AND DISADVANTAGES OF HOMEOWNERSHIP

Advantages:

- **Personal gratification in having a place of your own**
- **Tax benefits (deductible mortgage interest payments)**
- **Create assets through equity in your home rather than simply paying rent**
- **Investment potential (if the house increases in value)**
- **Stable mortgage payments (if fixed rate), compared to generally rising rents**
- **Independence**
- **Pride of ownership**
- **Planting roots/stability**
- **Do what you want/decorate/you're the boss...etc.**
- **Greater sense of security**

Disadvantages:

- **Large cash investment/high up-front costs (down payment, closing costs)**
- **Responsibility for property taxes**
- **Responsibility for maintenance**
- **Responsibility for repairs**
- **Risk of foreclosure (in the event of nonpayment)**
- **Probably larger monthly housing payment**
- **Less mobility than renting**
- **Cannot usually sell a house quickly**
- **No guarantee of property appreciation**

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TIP:

Discuss the market conditions for your area.

What the housing trends been? How has the housing market changed in your area in recent years?

Discuss how the market can affect property appreciation in both positive and negative ways and what that could mean for re-sale values.

Discuss Foreclosure trends and chances that many units on the market may be in some stage of foreclosure.

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D. HOMEBUYER'S ROADMAP

The following “roadmap” overviews the homebuying process by giving a step-by-step list and related costs involved in purchasing a home. Like any “roadmap,” there may be detours that are unexpected, costs may fluctuate depending on economic and market influences and the local market, and there may be additional steps or some that can be bypassed altogether.

- 1. Take a homebuyer training class. Cost = 0 - \$50**
- 2. Determine lists of housing wants and needs based on personal evaluation and plans for future. Cost = 0.**
- 3. Develop a budget of current income and expenses to determine what you can afford. Develop a financial plan to achieve homeownership. Make sure to include all homebuying costs. Cost = 0.**
- 4. Obtain a credit report. Address any issues that may arise from report. Cost = 0.**
- 5. Identify special mortgage programs for which you may be income-eligible. Cost = 0.**
- 6. Shop local banks and mortgage companies for mortgage programs and rate information. Discuss pre-qualification with several lending institutions to determine financial readiness and borrowing ability. May want to get pre-qualified for a specific program or product. Cost = 0.**
- 7. Get pre-approved by at least one lender. Cost = 0-\$750
(Most lenders charge an application fee (see #15), and then credit the fee towards closing costs; some lenders do not charge a pre-approval fee)**
- 8. Contact real estate professionals to get information about housing market in your price range, including information about what properties are currently available as well as what properties are under agreement or have recently sold. Cost = 0.**
- 9. Start looking at houses. Visit a number of homes before deciding on the house you want. Cost = 0.**
- 10. Shop around for other members of your homebuying “team,” e.g. attorney, home inspector, other inspectors, insurance company, etc. Cost = 0.**

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11. Make offer on property. Make sure offer includes a contingency for inspections and mortgage. Cost = Binder of (*instructor should indicate typical dollar amount for the local market*), refundable if offer not accepted or deal falls apart. If deal goes through, deposit goes toward down payment.

**12. Have home inspection performed by professional home inspector.
Cost = Between \$150-\$450 depending on type of property and inspector used.**

Note: If you are purchasing a foreclosure, you will likely be asked to purchase the unit as is.

**13. Have your attorney negotiate a Purchase and Sales (P&S) agreement.
Cost = Up to \$1,200, depending on complexity of negotiations and attorney used (probably less if you use the lender's attorney).**

Note: If this is a short sale, you may need to wait for several months to a response on the P&S. If the unit is REO, a bank will insist on their own, usually more complex, standard P&S.

**14. Sign approved Purchase and Sales agreement.
Cost = Typically, the deposit is equal to 3-10% of the sales price, minus the initial binder made available at offer. Deposit is refundable if deal does not go through and all conditions outlined in the P&S are met.**

**15. Apply for mortgage.
Cost = Between \$250 - \$750, generally non-refundable.**

16. Get commitment letter from mortgage lender. Read carefully to identify any unresolved issues. Cost = 0

**17. Request and perform a "walk through" of property to verify condition.
Cost = 0**

18. Obtain homeowners/hazard insurance binder, get final closing cost figure and go to closing with money for closing costs and remaining down payment.

Costs =

- **Insurance -- Between \$350-\$1,000 based on type of property and insurance purchased.**
- **Closing costs -- Wide range depending on lender and product used. Could be as low as 1% or as high as 5% of cost of house, depending on**

number of points, fees charged and the size of the loan.

- **Remaining down payment -- Based on information outlined in your original offer and again in the Purchase and Sales agreement, the figure is determined by deducting the deposits made available at Offer and P&S from the down payment required. Combination of the earlier deposits, plus the remaining down payment and the proceeds from the mortgage made available by the lender equal to the total sales price of the house.**

19. Get keys from seller. Have utilities turned on in your name. Move into your house. Don't forget to budget moving and settling in costs (new appliances, etc.).

20. Make the first mortgage payment (and don't be late!).

E. ROLE OF PROFESSIONALS

This section is intended to provide an overview of the professionals involved in the home buying process. Detailed information on the role of each kind of professional will be covered in future sections of the counseling program.

Real estate professionals assist sellers in selling their homes, and buyers in purchasing homes. As a buyer, you will be either a client or a customer of a real estate agent. If you are a client, you have a written contract with the agent to represent you in the purchase of your home. This buyer's agent is required to get the best terms and conditions possible, and to negotiate on your behalf. If you are a customer, the listing agent works for the seller and cannot negotiate for you, but is legally bound to treat you fairly and honestly.

Mortgage lenders, loan processors and loan underwriters work for lending institutions that lend money for the purchase of a home, over and above the down payment. There are different types of lending institutions, including commercial banks, savings banks, mortgage companies, and credit unions.

A home inspector is hired by the buyer to evaluate the mechanical and structural condition of the house.

The appraiser is hired by the lender (and paid by the buyer) to determine the market value of the house.

A real estate attorney is hired and paid by the buyer to review the purchase and sale document before the buyer signs it. An attorney can also represent the

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buyer at closing and help with other aspects of the homebuying process, if desired.

The lender's attorney certifies the title and hosts the closing. The bank's attorney works for the bank but is paid by the buyer. (Some buyers choose to use the bank's attorney instead of hiring their own real estate attorney. This varies in practice throughout the state, and in some areas it is advisable to hire your own attorney.)

A hazard insurance agent provides the hazard insurance binder for the first year, and is hired and paid by the buyer prior to closing.

Financial services professionals assist prospective buyers to assess their financial readiness to purchase a home and to develop and implement plans to achieve the goal of homeownership. Financial services professionals include:

- Credit counselors and financial planners who provide counseling and professional education on a wide range of personal financial matters.
- Credit counselors who can assist with credit repair, budgeting, and debt management.
- Financial planners who can assist with budgeting and spending plans, financial goal setting, and looking at homeownership in the context of broader personal finances and goals.
- Mortgage lending professionals can also assist with some aspects of credit counseling and financial goal setting, with a more specific view towards homebuying.

Financial services professional can be found at non-profit credit counseling agencies and through non-profit homebuyer counseling agencies, as well as at lending institutions.

F. DOING YOUR HOMEWORK - SOURCES OF INFORMATION

Buying a home is probably the largest financial investment a household will make. All potential homebuyers should make sure that they have the information they need to make an informed decision.

Sources include:

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- Word of mouth - talk to other homeowners about the benefits and problems of homeownership, types of neighborhoods, etc.
- Local newspaper – the real estate section for information on housing types and costs, other sections for information about the community you may be considering
- Multiple Listing Service (MLS) - on-line, live demonstration of available homes provided by a licensed real estate broker who subscribes to the service
- Town assessor’s office - to identify the owner of a property and tax information
- County Registry of Deeds - to research property including existing mortgages, liens, history of ownership, etc.
- Internet: home-pages of real estate firms, HUD (www.hud.gov), non-profit community-based organizations, MassHousing (www.masshousing.com), Massachusetts Housing Partnership (www.mhp.net) Fannie Mae (www.fanniemae.com), CHAPA (www.chapa.org), MassAccess Affordable Housing Registry (www.massaccesshousingregistry.org), Mass Affordable Homes (www.massaffordablehomes.org), etc.
- City or town planning offices to determine what programs exist (down payment assistance, Soft Second, rehab and other special programs)
- Non-profit agencies for information about local programs
- Individual lenders for information on the types of mortgages that are available, interest rates and pre-qualification procedures
- “Community Profiles” - the state Department of Housing and Community Developments’ source for information on community and public school profiles, municipal finances, state legislators, and other relevant community information (www.state.ma.us/dhcd).
- *Banker and Tradesman* (a trade newspaper) for past sales information (available on-line at www.bankerandtradesman.com)